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TAGS: [ECON](#) [PGOV](#) [EAGR](#) [ELAB](#) [EFIN](#) [SOCI](#) [CH](#)
SUBJECT: COMMENTS ON STABILITY AND DEVELOPMENT FROM A HUNAN
RURAL EXPERT

REF: A. (A) 05 BEIJING 17604
[1](#)B. (B) 05 BEIJING 20124
[1](#)C. (C) BEIJING 19662

Classified By: (C) CLASSIFIED BY MINISTER COUNSELOR FOR ECONOMIC AFFAIR
S ROBERT LUKE; REASON 1.4 (B) AND (D).

SUMMARY

[1](#)1. (C) Hunan Province's economic "growth at all costs" approach to development threatens to undermine social stability in the province in the view of a provincial economic policymaker who focuses on rural issues. He cited water pollution, land seizures, and the state of public finances in the wake of the elimination of the agricultural tax as ongoing concerns with potential implications for social stability. While policymakers in Hunan Province hope that the Central Government's New Socialist Countryside initiative will provide modest benefits to farmers in terms of improved social services, the expert acknowledged that increasing the proportion of rural income from non-farm sources is a greater priority for the provincial government. To this end, Hunan's current rural policy emphasizes road construction over social services. END SUMMARY.

MEETING IN HUNAN

[1](#)2. (C) Peng Shunxi, Director of the Rural Economy Division at the Hunan Provincial Development and Reform Commission, recently met with Econoff in Changsha, the capital of Hunan Province, and discussed rural conditions in the province. During a previous trip to Changsha in October 2005, Peng had told us of his optimism at the time concerning economic prospects for the countryside in Hunan (Ref A).

ON THE ROAD TO THE NEW SOCIALIST COUNTRYSIDE

[1](#)3. (C) Peng remains mostly upbeat about economic prospects for China's rural areas, and he is hopeful that the Central Government's New Socialist Countryside initiative, launched

in late November 2005 (Ref B), will benefit Hunan's rural residents. He said that for Hunan Province, which includes many remote, mountainous areas, the New Socialist Countryside's education component, which calls for nine years of compulsory education, is particularly important. According to Peng, Hunan's view of the New Socialist Countryside initiative is that it reflects the government's increasing recognition that a widening urban-rural income gap has implications for social stability in rural areas. Resources for the New Socialist Countryside are insufficient, however, and the initiative certainly is inadequate to address immediate concerns in rural areas, Peng said.

¶4. (C) Hunan Province's primary rural policy focus, according to Peng, is not on social services but on rural infrastructure, especially highways. Peng stated that under the Eleventh Five-Year Plan, the provincial government hopes to connect each village in the province by paved road. (Comment: Road construction also was a major topic among Hunan deputies during the National People's Congress (NPC) session in March 2006. End Comment.) This construction not only will facilitate the movement of agricultural goods to market, but more importantly for Hunan, will enable more farmers to move to urban areas, Peng said.

FARMERS INCREASINGLY RELYING ON NON-FARM INCOME

¶5. (C) Hunan officials continue to believe that rural-to-urban migration remains the most important mechanism to promote balanced economic development, Peng stated. Agricultural work will continue to employ the largest number of people in the province, but the share of rural incomes from non-farm employment will continue to increase steadily,

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Peng opined. With an estimated 8 million rural laborers (out of a provincial population of approximately 68 million) already having moved outside the province to work in Guangzhou, Shanghai, or cities in Central China, local policymakers are actively promoting urbanization as a means to help the countryside. Peng stated that Hunan's goal is to increase its current urbanization rate of 37 percent to 43 percent by 2010. In addition, the provincial government is promoting non-farm employment for those rural residents who remain in the countryside, and one area of increased emphasis is the tourism sector (see septel).

POTENTIAL THREATS TO STABILITY

¶6. (C) Peng stated that efforts to promote balanced and continuous development will be unsuccessful if local governments do not address emerging threats to stability in the countryside. Hunan's rapid economic growth in recent years has resulted in serious social costs in the province, he said. Peng cited water pollution, land seizures, and public finance as three major on-going concerns.

WATER POLLUTION

¶7. (C) On water pollution, Peng said that local government officials are to blame for "blindly developing" at the expense of the environment. He endorsed the Central Government's stated objective to consider the environmental costs of GDP growth. Peng stated that local government awareness about environmental problems remains poor, and the Central Government should increase funding for environmental protection in the countryside. A major challenge for improving environmental awareness in Hunan, Peng added, is that neither the Central Government nor local governments have sufficient economic incentives to rein in polluting industries, many of which are state-owned enterprises (SOEs).

¶8. (C) In early September, the Xinhua News Agency reported

that two senior managers from chemical plants in Hunan were detained in connection with illegal discharges of a highly toxic arsenic compound into the Xinqiang River, causing the suspension of drinking water for 80,000 residents in Yueyang County. Peng claimed that although Xinhua reported that local environmental protection officials discovered the pollution during a routine water quality check, the reality was that farmers triggered the investigation when they complained to the media about poor water quality.

LAND SEIZURES

¶9. (C) Peng also expressed concern about land seizures in the countryside and their impact on social stability. In Hunan, most land seizures are the result of either water and hydropower project construction or rural road construction. On water and hydropower projects, Peng said that the Central Government's new initiative to revise regulations on compensation standards for land that is expropriated for dam construction (Ref C) is a welcome development in Hunan. Regarding highways, Peng pointed out that a negative by-product of promoting rural road construction is that land seizures likely will worsen in the near future. While many farmers are willing to leave their land in exchange for adequate compensation, others do not want to leave their ancestral homes, commented Peng.

PUBLIC FINANCE

¶10. (C) Peng remains worried about local governments' debt burden (Ref A). He echoed the concerns of officials in other provinces about the elimination of the agricultural tax, which, although benefiting poor farmers, also causes a revenue loss that affects local government efforts to provide social services, including education and health care. The

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Central Government needs to reform the tax and revenue system to transfer additional funding to local governments for social services; otherwise, the New Socialist Countryside policy will fail, in Peng's view. (Note: A farmer in Shao Shan, 50 km west of Changsha, told Econoff that the New Socialist Countryside has been unsuccessful to date as the local government has failed to provide additional services or to reduce the tax and fee burden. "Everything we do to improve our lives, we do without the help of the government," she said. End Note.)

COMMENT

¶11. (C) Adding in our experiences from other travel as well as discussions with contacts in Beijing, we assess that what we saw in Hunan represents a more general case: China's "growth at all costs" campaign of the past several years instilled a short-term perspective concerning economic development. While the Central Government aims through its Eleventh Five-Year Plan to take other development factors, including environmental costs, into consideration, translating this into on-the-ground objectives, incentives, and supportive local structures will be a complicated and lengthy undertaking. In Hunan's case, inadequate local government attention to water pollution, ongoing land seizures, and eroding public finances could make rural stability concerns an area of focus for some time to come. END COMMENT.

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